

ABSTRACT

INTERNATIONAL AFFAIRS AND DEVELOPMENT PROGRAM

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AN ANALYSIS OF THE ORNAMENTAL PLANT AND FLOWER INDUSTRY IN THE CENTRAL PROVINCE OF SRI LANKA

Advisor: Dr. Kwaku Danso

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This paper outlines the author's work as an intern with the Agency for International Development in Sri Lanka. A detailed analysis of the ornamental plant and flower industry in the Central Province of Sri Lanka is presented as a case study. The political economy of Sri Lanka and the constraints to economic growth are discussed. A review of the literature on export promotion and competing theories is presented. Examples of healthy and viable economies in Asia which utilized export promotion as a strategy to stimulate development are also provided.

The data gathered in the case study suggest that the small scale and fairly new ornamental plant and flower industry requires little investment and production costs, yet offers promise for increased employment, revenue and foreign exchange earnings. It provides an opportunity for women to earn money and, best of all, there is room for expansion. Moreover, scholarly literature indicates that increasing production through official export promotion activities would well serve the development goals of the nation.

AN ANALYSIS OF THE ORNAMENTAL PLANT AND FLOWER INDUSTRY
IN THE CENTRAL PROVINCE OF SRI LANKA

A THESIS

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ANDREA L. HENDERSON

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CHAPTER 1

INTRODUCTION

The United States Agency for International Development (U.S.A.I.D.) is charged with formulating and administering one aspect of the United States government's foreign policy objectives; international development. The goals of U.S.A.I.D.'s Agriculture and Natural Resource (ANR) division include stimulating the expansion of private agro-based enterprises in Sri Lanka through agro-enterprise investment, technology development, market development, public sector support, and new financing mechanisms. Increasing the international competitiveness and employment generating ability of Sri Lankan agro-businesses, assisting efforts at increasing the market-orientation of the Sri Lankan economy by increasing the private sector's involvement in policy-making and helping to privatize a significant number of state-owned agro-enterprises, and strengthening the institutional capability of the Sri Lankan Department of Agriculture to increase subsidiary field crop production by small farmers are also important. The Diversified Agriculture Research Project (D.A.R.P.) in Kandy, Sri Lanka, is one project designed to address these issues.

Currently, the main agricultural commodities in Sri

Lanka are tea, rubber, coconuts and spices. The agricultural sector is extremely vulnerable to erratic international market prices. When international prices drop, the agricultural sector suffers. Subsequently, the entire economy suffers because it is so heavily dependent on agriculture. In exploring diversified crops to promote, ornamental plant and flowers presented an attractive option.

To explore the feasibility of a profitable ornamental plant and flower industry which could facilitate Sri Lanka's development efforts, U.S.A.I.D. recruited the writer to work with D.A.R.P. in Kandy. The purpose of the study was to quantify the net economic benefits derived from ornamental production, handling, and export from Sri Lanka. Not only was the study to estimate the total economic gains obtained, but the laborers, and other actors were to be discussed. Distribution of costs and benefits was considered important because of the current surrounding experiences in high value commercial agricultural ventures in Sri Lanka. Many leaders and officials are concerned that such modernization of certain pockets will lead to disparities in income and social well being that are detrimental to the social goals of the society.

The original scope of work included describing the firms involved in the ornamental plant and flower industry in Sri Lanka, identifying sources of capital and estimating total investments. In addition, it included identifying the

major services and inputs used by the industry, distinguishing those provided locally from those that are imported, estimating costs of production, processing and exporting, along with production levels and revenues. Secondary impacts and distribution of benefits would then be addressed.

After developing a work plan, conducting preliminary field surveys and consulting with technical advisors, the writer revised the scope of work to limit the initial phase of the study, in which she would participate, to the Central Province of Sri Lanka. She designed a survey that addressed as many of the issues as possible within the allotted time-frame and then collected and analyzed the data.

This paper is an analysis of the study. It concludes a research process which began by questioning the very definition of development because the challenge of development is to continue to try to understand its essence. This inquiry led to the differentiation between overall development and economic growth. As a result of this understanding, an argument is made in support of international trade to stimulate economic growth. One aspect of trade policy which has been successfully utilized in other Asian economies is official export promotion.

All of the information presented in this paper will be used to support the general proposition that export promotion is a viable strategy to achieve economic growth.

In addition, the more specific proposition set forth in this paper is that official promotion of the ornamental plant and flower industry in Sri Lanka will well serve the development goals of the country.

"An Analysis of the Ornamental Plant and Flower Industry in the Central Province of Sri Lanka" is a comprehensive deliberation. It is not an analysis for technocrats, but rather a thought provoking meditation which will hopefully inspire other academicians to further pursue the issues confronted.

Statement of the Problem

The desperate situation of Third World nations cannot be ignored. Over two-thirds of the world's population live in absolute poverty.¹ It is the moral imperative of scholars of international development to examine their condition and assist with development efforts. A large part of this assistance comes from clearly defining the concept, development. The definition has changed many times and this author intends to elucidate the relevant issues in order to present a clear and comprehensive definition of this process.

Furthermore, Sri Lanka has assumed the responsibility of every developing country to orchestrate a cohesive, effective national development plan by adopting a strategy

¹Michael P. Todaro, Economic Development in the Third World, (New York: Longman Inc., 1989), 3.

of export promotion to encourage economic growth and development. The export sector is enhanced through a series of incentives and other official activities.

This paper will review the literature on export-led growth and provide a detailed analysis of the ornamental plant and flower industry in the Central Province of Sri Lanka. It argues that official promotion of this sector will lead to economic growth and other development goals. This analysis is useful because of the lack of attention given to this country in particular. Much of the literature has concentrated on the success stories of South and Southeast Asia, but there is little scholarly research available about Sri Lanka. It therefore fills an information gap and will hopefully provide the impetus for further exploration.

Organization of the Study

Chapter 1 explains the path that led the author to complete this study and provides a statement of the problem. Chapter 2 outlines the strategy of export-led development and reviews the relevant literature. The meaning of development, the importance of international trade to economic growth and development, and export-led development as a development strategy are all discussed. Chapter 3 provides the conceptual framework and the methodology for the study. Beginning with Chapter 4, the study focuses specifically on Sri Lanka. It reviews Sri Lanka's political

economy. Chapter 5 consists of a case study which examines the ornamental plant and flower industry in the Central Province of Sri Lanka and explains how official promotion of its export can promote the development goals of the nation.

CHAPTER 2

LITERATURE REVIEW

Definition of Economic Development

Any discussion of development strategies must logically begin with a definition of development. Development is a multidimensional process which integrates both the economic and social aspirations of a nation. It entails not only increasing employment, wages, the Gross National Product (GNP) or foreign exchange earnings, for example. Ensuring the equitable distribution of resources, increasing literacy and access to education, technological progress and improving the quality of healthcare are also important. Development is generally defined in a national context although there is an increasing awareness of the importance of international economics in this process as well.

Most of the literature on development is concerned only with economic development or economic growth. Rarely is economic growth distinguished from the multidimensional process of development.

In his book, Economic Development in the Third World, Michael P. Todaro describes the two dominant schools of

thought concerning economic development.¹ The first is the "stages of economic growth" theories predominant in the 1950s and early 1960s. At this time, it was thought that all developing countries must go through certain stages to achieve development. In other words, development was considered a universal process which had no geographical or country - specific limitations. Savings, investment and foreign aid were manipulated to achieve rapid, aggregate economic growth.²

Economic development was measured in terms of the real per capita GNP. This allowed economists to determine the ability of a nation to expand its output at a rate faster than the growth rate of its population, accounting for inflation.³ In this manner, the economic capability of the average citizen could be estimated. Another common index of macro-economic development was the ability of a country to achieve a 6 percent annual growth rate in the GNP and sustain this rate of growth over a period of time.⁴ Growth in the GNP was associated with improvement in the balance of payments (BOP), more investment in infrastructure and increased national savings.

¹Michael P. Todaro, Economic Development in the Third World, (New York: Longman Inc., 1989), 57.

²ibid.

³ibid, 68.

⁴ibid, 68.

In Theories of Economic Growth and Development, Irma Adelman defined development as "the process by which an economy is transformed from one whose rate of growth of per capita income is small or negative to one in which a significant self-sustained rate of increase in per capita income is a permanent long-run feature."⁵ It is evident that during this period, economic development was considered synonymous with growth. In fact, Manisha Perera points out that a 1955 book on economic development by W.A. Lewis was titled, The Theory of Economic Growth. In this book, Lewis assumed that growth and development were the same. No one questioned the applicability of the title.⁶ Moreover, although economists did acknowledge that development entailed more than increasing GNP, the major focus of treatises on development and the priority of economic policy remained just that.

In the last thirty years, development economists have examined the empirical evidence and have found this index to be insufficient as an indication of development progress. Rather, it is but one micro indicator of development that must be assessed in conjunction with other micro indicators to determine the extent of overall development.

⁵Irma Adelman, Theories of Economic Growth and Development, (Stanford: Stanford University Press, 1961), 1.

⁶Manisha Hasanthi Kumari Perera, "Privatization As A Strategy For Economic Development," (Auburn: Auburn University, 1991), 6.

Because of this realization, the second school of thought, which was prevalent during the late 1960s and 1970s, emerged. This group advocated the "structural-internationalist" model of economic development. Unlike the Linear Stages Model, this approach emphasized more egalitarian objectives than simple economic growth.

This approach views underdevelopment in terms of international and domestic power relationships, institutional and structural economic rigidities, and the resulting proliferation of dual economies and dual societies both within and among the nations of the world. Structural theories tend to emphasize external and internal institutional constraints on economic development. Emphasis is placed on policies needed to eradicate poverty, to provide more diversified employment opportunities, and to reduce income inequalities.⁷

Dudley Seers articulated the change in focus in his presidential address to the Eleventh World Congress of the Society for International Development:

We have misconceived the nature of the main challenge of the second half of the twentieth century by making 5 percent growth rate of GNP the target for the First Development Decade. It was naive to assume that increases in national income, if they are faster than population growth, sooner or later lead to the solution of social and political problems. The questions to be asked about a country's development are therefore: What has been happening to poverty? What has been happening to unemployment? What has been happening to inequality? If one or two of these central problems has been growing worse, especially if all three have, it would be strange to call the results "development" even if per capita income has doubled.⁸

⁷Todaro, 57.

⁸Dudley Seers, "The Meaning of Development," International Development Review, (December 1969) as quoted in Perera

The shift in focus of development economists has resulted from an unclear distinction between the concepts of economic growth and economic development. This author concurs with Michael P. Todaro and will use his definition of the two terms for the purposes of this paper. Economic growth entails increase in income, while economic development involves "increases in per capita GNP along with changes in social structures, popular attitudes, national institutions and the reduction of inequality and the eradication of absolute poverty."⁹

The Importance of International Trade to Economic Growth

From the earliest interaction of nations, international trade has been an important variable in the economic, political and social well being of states. There are three major schools of thought which suggest that international trade plays a significant role in development. Mercantilist, Marxist and liberal ideologies all conclude that international trade impacts upon the internal and external strength of a country.

Mercantilism constitutes one of the earliest attempts to understand national and global economic processes and directly attributes greater importance to trade than does

"Privatization as a Strategy for Economic Development" (Ph.D. diss., Auburn University, 1991), 7-8.

¹⁰Todaro, 88.

any other school.¹⁰ Gustav Schmoller (1967) attributes the consolidation of small, medieval political units into a unified nation-state to the manipulation and control of trade.¹¹ He believes the foundations of mercantilism to be based,

not in some doctrine of money, or of the balance of trade; not in tariff barriers, protective duties, or navigation laws; but in something far greater - namely, in the total transformation of society and its organization, as well as the state and its institutions, in the replacing of a local and territorial economic policy by that of a national state.¹²

Once the political unit had been established, mercantilist trade policies were concerned with maintaining a positive balance of payments (BOP). Maintaining a positive specie flow (as Denmark (1987) referred to BOP surpluses) was important for the acquisition of foreign goods, domestic accumulation and high rates of employment, which was crucial to achieving stability and growth. Currency was needed, for example, to purchase the ships, weapons and to hire the mercenaries necessary for national security. Barter was an inefficient means to this end.

International trade brought profits to economies which

¹¹Robert Allen Denmark, State Strength in the Periphery of the Capitalist World-System: A Focused Comparative Critical Case Study Analysis, (Minnesota:University of Minnesota, 1987), 84.

¹¹Gustav Schmoller, The Mercantile System and its Historical Significance, (New York: Augustus Kelly reprints, 1967), 50.

¹³ibid., 51.

typically had low returns on investment. Bullion surpluses were created and trade was considered the surest means of amassing wealth. As for its impact on employment, both Josiah Child and von Sonnenfels noted that trade would serve to increase low employment rates. Moreover, they argued that emphasizing labor intensive industries would foster economic growth.¹³

Denemark (1987) summarized his review of mercantilist literature:

Trade plays a critical role in the mercantilist and neo-mercantilist literature, and nowhere does it play a greater role than in countries with weak, poorly integrated economies which lack many of the structural advantages of more advanced areas. Here the impact of the gains (or losses) from trade are viewed as most important. Capital accumulation, employment, investment, security, fiscal health, independence from excessive foreign influence and the stability of the country itself can be viewed as by-products of a positive trade situation.¹⁴

Denemark (1987) argues that while Marx concentrates his treatise on the mode of production, the phenomena of international trade was an important consideration on the periphery of the study.

While Marx focused his analysis on production, elucidating its processes and providing us with a dynamic form of reasoning, trade was never far from the heart of this analysis and with good reason. As surplus must be realized and capital accumulated, goods must be exchanged. Marx was never so naive as to view this exchange as a

¹³Charles Wilson, "The Other Face of Mercantilism," in D.C. Coleman, Revisions, 128-29; idem, "Trade, Society and the State," 560.

¹⁵Denemark, 95.

neutral process either within or between countries.¹⁵

Marxist and neo-marxist authors present four impacts of international trade on development. The first concerns the ability of trade to transform societies economically and politically. According to Marx, trade helped to destroy the feudal system by initiating and accelerating the process of capital accumulation. Again, Marxist ideology acknowledges that trade provided the only early method by which capital could be accumulated in quantity.¹⁶

Furthermore, the political transformation of colonial societies came about with the advent of trade with more advanced nations. Those countries in the "Asiatic Mode" did not have sufficient internal contradictions to fuel social change and it was not until this type of interaction that the old norms were dismantled.

The Second impact of international trade deals with its ability to compensate for perceived flaws of capitalism, namely the tendency for the rate of profit to fall. Economic expansion enables advanced areas to "offset the impact of a reduction in exploitable surplus by reducing the price of intermediate commodities, by reducing food and therefore wage costs, and by deepening the market and

¹⁶ibid, 69.

¹⁷Karl Marx, "The Future Results," in On Colonialism, 81-87.

possibly decreasing circulation time."¹⁷ Ernest Mandel describes the Marxist interpretation of the role of international trade in this manner. Less developed (colonial) areas are exploited. The profits allow the capitalist system to continue functioning and the pre-eminence of policy which supports this process is therefore established.¹⁸

The final two contexts in which a salient role for international trade emerges is what Denemark (1987) calls, "class consolidation" and "state and class formation." Class consolidation arises when free trade inevitably occurs. Wages are lowered, the difference between wages and profits are enlarged, the position of intermediate producers/sellers and large landowners are worsened and they are all thrust into the proletariat.

Finally, international trade and the desire for "commercial supremacy" are important variables in the formation of classes and state policies.¹⁹

Liberal ideology concerns itself specifically with the relationship between international trade and the state. Classical and neo-classical liberal literature deal with government policy, the vulnerabilities of the state, power

¹⁸Denemark, 73.

¹⁹Ernest Mandel, Late Capitalism, (London: Verso, 1978), 70-74.

²⁰Denemark, 75-76.

relations and the linkage between the economic system and socio-political developments.

The liberal school of thought holds that government policy is affected by trade considerations. Even Adam Smith, the author of laissez-faire theory, believes that while state interruption of market forces leads to economic inefficiencies and weakness, state strength could be maximized by capturing the economic efficiencies of an open system.²⁰

David Ricardo (1817) added to Adam Smith's philosophy in his Principles of Political Economy and Taxation. It was here that Ricardo introduced his theory of comparative advantage. The theory proposes that a country that can produce a specific commodity cheaper than other nations should specialize and trade this commodity for others produced in other nations.²¹

Neo-classical liberal authors advocate free trade and an open economy, yet argue that the state is responsible for ensuring a structure to enable capital accumulation (savings), as this is assumed to be the greatest obstacle to development.²²

Likewise, government intervention in the economy is

²⁰Adam Smith, The Wealth of Nations [1776], (London: Everyman's Library Edition, 1975) chap. 1 passim.

²¹David Ricardo, Principles of Political Economy and Taxation [1817], (Middlesex: Penguin Books, 1971) 18.

²³Denemark, 51.

deemed necessary to avert problems associated with the unpredictability of an open market. This is especially so in young economies which must confront competition and resulting instability, changes in demand for their export, capital immobility and insufficient accumulation. Ricardo (1817) suggests that state action be taken to avoid reductions in trade and to reduce the impact upon the population in the case of resource transfer.²³ Nurkse and Eckstein encourage state action which promotes capital accumulation and increased investment.²⁴ Rybczynski, Singer and Prebisch discuss the vulnerability of nations due to the terms of trade. They all agree that the state is able to pursue policies to improve its terms of trade.²⁵

Denemark summarizes,

All of these vulnerabilities require not just policies which facilitate free market operations but those which actually augment them in the areas of the protection of infant industries, the moderation of the impact of market shifts, control over foreign direct investment, the accumulation and efficient use of capital, as well as the use of judicious tax and development policies.²⁶

The third concern of liberal ideology is power relations which form between trading partners. Hirschman

²⁴Ricardo, 269-77.

²⁵Jere Behrman, "Development Economics," quoted in Sidney Weintraub ed., Modern Economic Thought, (Philadelphia: University of Pennsylvania Press, 1977), 537-38.

²⁶ibid, 542.

²⁷Denemark, 58.

(1945) writes that a prudent trade strategy could lead to international power and influence. States must concentrate on importing and stockpiling strategic goods, defending trade routes and solidifying relations with trade partners so that important goods will not be withheld during war. Further, trade typically engenders relationships of dominance and dependence among nations. Therefore, Hirschman concludes that trade can be utilized to wield influence. He states,

The important point is that power elements and disequilibria are potentially inherent in such "harmless" trade relations as have always taken place, e.g., between big and small, rich and poor, agricultural and industrial countries - relations which could be fully in accord with the principles taught by the theory of international trade. Political power may only be latent in such commercial relations. But so long as war remains a possibility and so long as the sovereign nation can interrupt trade with any country at its own will, the contest for more national power permeates trade relations, and foreign trade provides an opportunity for power which it will be tempting to seize.²⁷

In this passage, Hirschman reveals that he believes the relationship of dominance and dependence are not atypical, but rather exists in all interaction of this type whether it is blatant or clandestine.

The final aspect considered by architects of liberal theory is the impact of trade on the socio-political structure of a nation. The first stage is specialization.

²⁷Albert Hirschman, National Power and the Structure of Foreign Trade [1945], (Los Angeles: University of California Press, 1980), 40.

Specialization in specific products necessitates the creation of specific productive structures. This set of productive structures affects the nature and form of the political system. Moreover, the constant vacillation of modes of production and exchange, which also affects the political system, requires a high degree of political adaptability.²⁸

Denemark (1987) concludes,

...trade has the ability, through its reinforcing of some forms of production and given the life cycle of goods themselves, to affect patterns of social and political development. This is viewed as the case in large, developed countries whose fortunes change with rising factor costs, the maturing of products and the export of capital. Certain trade positions may also halt the development of industry and thus retard the socio-political changes which industrialization brings in its wake. In area which are small, which are relative newcomers to the international economic system and which have a great part of their economy tied to trade in agricultural or extractive goods, these impacts will be most salient.²⁹

This brief literature review points to the crucial role of international trade in the development process. Regardless of ideological inclination, whether mercantilist, Marxist or liberal, the important role of trade is recognized. Accordingly, this affords to government policy in the area of foreign trade, a new position of priority.

²⁹Denemark, 61.

³⁰ibid, 68.

Export-led Development

With the distinction made between economic growth and development, a more comprehensive definition of development understood, and the importance of foreign trade to economic growth emphasized, attention can be turned to analyzing the utility of export-led development.

Hasnat (1989) summarizes export-led development;

...an export promotion strategy (also known as an outward-looking strategy) eliminates bias against exports and encourages--through pricing policies and incentives--exports, particularly of nontraditional commodities in which the country has a comparative advantage.³⁰

Export promotion is a strategy which emphasizes increased production for foreign consumption. Increased production, especially in labor-intensive industries, generates higher levels of employment. Higher output generates greater revenues (if market prices are stable). This leads to greater foreign exchange earnings, higher reserves and increased domestic investment which, in turn, begin the cycle anew. There is a multiplier effect at work. All of these variables ultimately affect the economic growth of a nation.

A crucial component of economic development is management of the balance of payments. "An adverse balance of payments is at the same time a dangerous symptom and

³⁰Baban Hasnat, Patterns of Trade and Payment: South and Southeast Asian Countries, 1970-1985, (Knoxville: University of Tennessee, 1989), 105.

itself a menace to economic stability. It is a symptom because it engenders tendencies which left unchecked may culminate in a state of economic breakdown."³¹

One internal measure a country can adopt to address BOP problems is export expansion. In his analysis of eight South and Southeast Asian countries (including Sri Lanka), Hasnat (1989) found that trade and development strategies in South Asia played an important role in determining the BOP position of a country; current account deficits were higher in countries pursuing import-substituting strategies and lower in countries pursuing export-oriented strategies.³² The study concluded that export-oriented countries were more successful in their attempts to counter adverse BOP situations than countries pursuing an import-substitution policy.³³ He writes,

The implications of trade strategy for the BOP position of a country become important in the case of external shocks. While the immediate impact of [shocks] may be higher in the outward-looking countries than the inward-looking countries, the outward-looking countries can adjust more quickly than the inward-looking group in responding to external shocks.³⁴

The success of the "Asian Tigers" and other growing Asian

³¹Ralph G. Hawtrey, The Balance of Payments Problem and the Standard of Living (London: Royal Institute of International Affairs, 1950), 9.

³³Hasnat, 188.

³⁴ibid, 179.

³⁵ibid, 105-106.

economies cannot be ignored in this exposition. Economists have credited structural changes in the economy, such as official support of the export sector for this growth.

Haggard, Kim, and Moon (1991) describe South Korea's economic transformation.³⁵ A set of policy reforms in 1964 and 1965 sanctioned official promotion of the export sector and sought to exploit South Korea's comparative advantage. First the currency was stabilized and devalued. Then subsidies and other forms of support were given to the export sector to enhance its profitability.

This effort went beyond price incentives to the development of political and administrative structures that allowed private sector input and enhanced the state's capacity to monitor performance. Additional government efforts centered on establishing market connections between Korea and the outside world through providing information."³⁶

While the policies were "far from laissez-faire," they moved the country in a more market-oriented direction and served to increase growth.

Over and over, we see Asian nations utilizing a similar path to growth and ultimately development. China (Islam, 1990), Thailand (Islam, 1990), Malaysia (Astbury, 1992), Singapore (Islam, 1990), etc... have all experienced growth resulting from government sponsorship of the export

³⁶Stephan Haggard, Byung-Kook Kim and Chung-In Moon, "The Transition to Export-led Growth in South Korea: 1954-1966" The Journal of Asian Studies 50, no.4 (November 1991):850-873.

³⁷ibid, 868.

sector.

Export-led development enables a country to address its economic problems by assisting with BOP deficits. Increased foreign exchange revenues allow the nation to import the goods necessary for further growth and development. This strategy also addresses such social problems as unemployment and, if implemented properly, equal distribution of newly acquired resources. The most convincing argument, however, of proponents of this strategy is its success in other Asian economies.

CHAPTER 3

METHODOLOGY AND CONCEPTUAL FRAMEWORK

Methodology

Through an analysis of the literature, a case will be made that official patronage of the export sector will stimulate economic growth and improve Sri Lanka's economic position in the world.

A nine page survey was administered to 26 ornamental growers in the Central Province to determine the industry's contributions and growth potential. (A copy of the survey questionnaire follows.) These 26 businesses represent a 100% sample of ornamental growers with more than 1500 plants and flowers on the premises. The Dbase Stats computer program was used to draw statistical conclusions from the resulting data.

The study also derived information from various sources and considered judgements of various specialists in different areas. Besides surveying growers in the targeted districts, consultation with exporters, the Director of the Royal Botanical Gardens, the Department of Agriculture, the Export Development Board, and other technical advisors, was necessary to ensure that our information was accurate and our study is a useful guide for further inquiry.

Ornamental Flowers Survey

I. Description of the firm/ enterprise

What is the name and address of the owner/business?

_____ Respondent and Position:

1. Questionnaire # A. _____ District B. _____

2. How many years have you been growing ornamentals as a business? _____ years

3. Who oversees the day to day activities of the business?

1. owner/owners
2. hired manager
3. other please specify _____

4. Is this business your only source of income?

1. yes
2. no

5. How much land is involved in growing ornamental plants? _____ acres

6. What other products are sold on the property?

1. Spices
2. Fruit
3. Animals
4. Crafts
5. Tea
6. Other please specify _____

7. Is the business on a main road?

1. yes
2. no

8. How many plants do you have on the premises now?
(in even thousands) _____

II. Investment costs

Description of STRUCTURES (ie. size, type of structure, materials used, how many, ...)

9. (Examples: care takers house, storage facility, water pipes, irrigation equipment,...)

	Year Built	Cost of Structure	1992 Cost 2=Loc	1=Imp
frame:	A. _____	B. _____	C. _____	D. _____
cover:	E. _____	F. _____	G. _____	H. _____
fence:	I. _____	J. _____	K. _____	L. _____
tool shed:	M. _____	N. _____	O. _____	P. _____
_____:	Q. _____	R. _____	S. _____	T. _____
_____:	U. _____	V. _____	W. _____	X. _____
_____:	Y. _____	Z. _____	AA. _____	BB. _____

10. What is the investment you have made in PROPAGATORY MATERIALS during the first 5 years?

Year of Investment	Amount Invested	1992 Rp Value
A. _____	B. _____	C. _____
D. _____	E. _____	F. _____
G. _____	H. _____	I. _____
J. _____	K. _____	L. _____
M. _____	N. _____	O. _____

11. Are the propagatory materials:

1. local
2. imported

12. What is the total investment you have made in EQUIPMENT AND TOOLS? Rps _____

13. What is the value of the well and pump?
Rps _____

III. Production costs

Note: YEARLY FIGURES

14. What is the cost of soil and additives (other than chemical fertilizers)?

rupees per load x loads per year = TOTAL

sand:	_____	x	_____	=	_____
coir dust:	_____	x	_____	=	_____
cow dung:	_____	x	_____	=	_____
bricks and					
charcoal:	_____	x	_____	=	_____
other:					
_____:	_____	x	_____	=	_____

TOTAL = _____

15. Are the soil and additives (other than chemical fertilizers):

1. local
2. imported

16. What is the yearly cost of:

pots/containers:	_____	=	_____
polybags:	_____	=	_____

TOTAL = _____

17. What is the cost of chemicals?

rps/container x containers/year = TOTAL

fertilizer:	_____	x	_____	=	_____
insecticide:	_____	x	_____	=	_____
fungicide:	_____	x	_____	=	_____
other:					
_____:	_____	x	_____	=	_____

TOTAL = _____

18. Is the fertilizer mostly:

1. local
2. imported

19. Are the other chemicals (other than the fertilizer):

1. local
2. imported

20. What is your cost of advertising per month?

Rps _____

21. What is the yearly cost of water supply?

municipal source: Rps _____

well source: Rps _____

TOTAL: Rps _____

IV. Revenues

22. What type of plants do you sell?

1. Potted Plants
2. Cut Flowers
3. Rooted Cutting
4. Cut leaves
5. Other _____

** How do you determine the sale price of your product?

POTTED PLANTS

23. Who do you sell the most to?

1. final consumers
2. retail shops
3. individual traders
4. local company
5. export market

If answer is 3 or 4

24. Who do they sell the most to?

1. final consumer
2. retail shops
3. individual traders
4. local companies
5. export market

25. How many potted plants do you sell per year?

_____ per wk X 52 weeks = _____ PER YEAR

26. What is the average price of a potted plant?

Rps _____

CUT FLOWERS

27. Who do you sell the most to?

1. final consumers
2. retail shops
3. individual traders
4. local company
5. export market

If answer is 3 or 4,

28. Who do they sell the most to?

1. final consumer
2. retail shops
3. individual traders
4. local companies
5. export market

29. How many cut flowers do you sell per year?

_____ per wk X 52 weeks = _____ PER YEAR

30. What is the average price of a cut flower?

Rps _____

ROOTED CUTTINGS

31. Who do you sell the most to?

1. final consumers
2. retail shops
3. traders
4. local company
5. export market

If answer is 3 or 4,

32. Who do they sell the most to?

1. final consumer
2. retail shops
3. individual traders
4. local companies
5. export market

33. How many rooted cuttings do you sell per year?

_____ per wk X 52 weeks = _____ PER YEAR

34. What is the average price of a rooted cutting?

Rps _____

CUT LEAVES

35. Who do you sell the most to?

1. final consumer
2. retail shops
3. individual trader
4. local company
5. export market

If answer is 3 or 4,
36. Who do they sell the most to?

1. final consumer
2. retail shops
3. individual traders
4. local companies
5. export market

37. How many cut leaves do you sell per year?
_____ per wk X 52 weeks = _____ PER YEAR

38. What is the average price of a cut leaf (or branch)?
Rps _____

OTHER _____

39. Who do you sell the most to?

1. final consumers
2. retail shops
3. traders
4. local company
5. export market

If answer is 3 or 4,
40. Who do they sell the most to?

1. final consumer
2. retail shops
3. individual traders
4. local companies
5. export market

41. How many do you sell per year?
_____ per wk X 52 weeks = _____ PER YEAR

42. What is the average price?
Rps _____

V. Employment

43. How many employees do you have?

44. How many of your employees are under 18?

45. How many from 18 to 45?

46. How many 45 and older?

47. How many of your employees have had formal horticultural training? (Professional)

male _____ female _____

48. How many of your employees have had informal horticultural training (ie. apprenticeship)? (Skilled)

male _____ female _____

49. How many of your employees have had no training? (Unskilled)

male _____ female _____

50. How many of your managers are:

male _____ female _____

51. How many employees are involved exclusively in handling and packaging? _____

52. Employment chart

PROFESSIONAL: Person with formal Horticultural training

MANEGERIAL: Person that runs day to day activity

SKILLED: Person that has informal horticultural training

UNSKILLED: Person with no training

* Unpaid employees included in the above categories.

	Number of Employees				Person Days of Labor per Year		Rupees per Day
PROF	P1	_____	_____	=	P2	_____	P3
		Hr/D	D/Wk Mo				
	P4	_____	_____	=	P5	_____	P6
		Hr/D	D/Wk Mo				
	P7	_____	_____	=	P8	_____	P9
		Hr/D	D/Wk Mo				
MNGRL	M1	_____	_____	=	M2	_____	M3
		Hr/D	D/Wk Mo				
	M4	_____	_____	=	M5	_____	M6
		Hr/D	D/Wk Mo				
	M7	_____	_____	=	M8	_____	M9
		Hr/D	D/Wk Mo				
SKLD	S1	_____	_____	=	S2	_____	S3
		Hr/D	D/Wk Mo				
	S4	_____	_____	=	S5	_____	S6
		Hr/D	D/Wk Mo				
	S7	_____	_____	=	S8	_____	S9
		Hr/D	D/Wk Mo				
UNSKLD	U1	_____	_____	=	U2	_____	U3
		Hr/D	D/Wk Mo				
	U4	_____	_____	=	U5	_____	U6
		Hr/D	D/Wk Mo				
	U7	_____	_____	=	U8	_____	U9
		Hr/D	D/Wk Mo				

VI. Problems / Suggestions

53. What are some problems/constraints you have encountered in operating your business? (please describe)

1. land
2. water
3. operating capital
4. location
5. market
6. availability of supplies
7. weather/ pests/ disease
8. transportation
9. civil unrest
10. advertising
11. packaging
12. access to information
on horticultural practices
13. other

What are your sources of information on horticultural practices (ie. propagation, plant diseases, marketing)

Do you have any suggestions as to who can help you and how?

Conceptual Framework

This document emanates from research and subsequent alignment with the "structural-internationalist" model of economic development. As indicated in the literature review, structural theories take a more holistic approach to eradicating constraints to economic development. Emphasis is placed less on mere economic growth and more on policy which would facilitate social and economic progress.

In accordance with the structural approach, the importance of international trade to economic growth is acknowledged. Furthermore, while the necessity of economic growth for development is undisputed, it is also understood that social development is not only a desirable component of development, but rather a process which must necessarily occur concurrently with economic development to ensure an equitable distribution of the newly acquired resources. This school of thought acknowledges that only in this manner can development be achieved in the holistic sense of its meaning.

History has proven the "stages of economic growth" theories inadequate. Development cannot be achieved by utilizing a universal formula. Rather, each national or regional situation must be evaluated individually. Moreover, the measurement of economic development according to this school of thought is insufficient. Growth in the GNP or even the per capita GNP does not satisfy other

national aspirations which cannot be measured in these terms.

Export promotion is a strategy which assumes that increased production, due to foreign consumption, will foster economic growth. Import-substitution, an alternate trade policy, attempts to replace imported goods with domestic sources of production.¹ Protective tariffs and non-tariff barriers are used to accomplish this. It is justified on the basis of fear of foreign dependency, the desire for self-sufficiency and arguments in favor of the protection of infant industries. Critics of this strategy point out that it can cause negative impacts on the economy and the BOP position of a country. Import-substitution leads only to a shift in the composition of imports instead of reductions in imports. Moreover, goods produced in countries pursuing import-substitution policies are often uncompetetive in the world market and cannot be exported.²

Finally, in order to achieve the desired results from export-led development, it is important to guard against the vagrancies of the international market. Commodity diversification is essential for this purpose.³ If the Sri Lankan government incorporated a policy of official promotion of the ornamental plant and flower industry, which

¹Hasnat, 104.

²ibid, 103-109.

³ibid, 43-51.

is not a traditional export sector, by broadening the export base, they would greatly enhance overtures at development.

CHAPTER 4

A POLITICAL ECONOMY OF SRI LANKA

Introduction

To date, economists have worked in isolation from area and country specialists and political scientists. Economic models are elaborated with minimal attention to the institutional framework. Nor is an effort made to understand why policies are adopted; policy choice is treated as exogenous. On the other hand, regional studies have not explored historical and archival materials with an eye toward questions in economic theory, such as the effect of different growth strategies on economic performance."¹

William Ryrie agrees with this sentiment. It is important to Ryrie that the role of the state be examined as a product of history.² He believes that "lasting economic and social development can be achieved only by societies with a high degree of political maturity."³ This section will look at the evolution of Sri Lanka's political and economic institutions in this light. The political and economic

¹Stephan Haggard, Byung-Kook Kim and Chung-In Moon, "The Transition to Export-led Growth in South Korea: 1954-1966" The Journal of Asian Studies 50, no.4 (November 1991): 869.

²William Ryrie, "Socialism, Capitalism and Development," Management Accounting 67, no. 2 (February 1989):33.

³ibid, 38.

structure of the country from the colonial period to the present will be discussed.

Geographical Description

The Democratic Socialist Republic of Sri Lanka is an island in the Indian Ocean less than 18 miles from the southeastern coast of India. Its area is 25,332 square miles. The climate is tropical.⁴

The People

Sri Lanka is a multiethnic, multireligious, and multilingual country. The Sinhalese comprise 74% of the population and are concentrated in the southwest.⁵ Sri Lankan Tamils, citizens whose South Indian ancestors have lived on the island for centuries, total about 12%.⁶ Most live in the north and east, although others can be found in the capital city, Colombo, and throughout the country. Indian Tamils represent about 6% of the population.⁷ This distinct group are descendants of tea and rubber plantation workers who were brought to the island by the British in the

⁴United States Department of State, Bureau of Public Affairs, Background Notes: Sri Lanka ([Washington, D.C.]: U.S. Department of State, Bureau of Public Affairs, 1989), 1.

⁵ibid.

⁶ibid.

⁷ibid.

19th century.⁸ They are concentrated in south-central Sri Lanka.

Other minorities include both Moor and Malay Muslims, who comprise approximately 7% of the population; Burghers, who are descendants of European colonialists; and aboriginal Veddahs.⁹

Most Sinhalese are Buddhist, and most Tamils are Hindu. The majority of Sri Lanka's Muslims practice Sunni Islam. Sizable minorities of both Sinhalese and Tamils are Christians, most of whom are Roman Catholic.¹⁰

Sinhala, an Indo-European language, is the native tongue of Sinhalese. Tamils and most Muslims speak Tamil, part of the South Indian Dravidian linguistic group. English is spoken as well, particularly in the middle and upper middle classes.¹¹

Sri Lanka's population is about 16.8 million.¹²

⁸Jae Kyung Lee, "Dependency, the State, and Development in Asia" (Ph.D. diss., University of Michigan, 1987), 133.

⁹U.S. Department of State, 1.

¹⁰ibid.

¹¹ibid.

¹²Russell R. Ross and Andrea Matles Savada, ed., Sri Lanka: A Country Study (Washington, D.C.: Federal Research Division, Library of Congress, 1990) 3.

Historical Background

The Colonial Period

Sri Lanka was colonized by three Western powers from the mid 16th century to the mid 20th century.¹³ The island's first significant contact with the Europeans came when the Portuguese landed on its shores in 1505.¹⁴ The most durable legacy of the Portuguese was Roman Catholicism. They also contributed to the development and standardization of educational institutions.¹⁵

The Dutch helped remove the Portuguese from their coastal strongholds in 1658. Sovereignty over the island was granted to the Dutch East India company. During this period, the Western influence on the urban Sinhalese, who typically had a higher literacy rate and enjoyed a higher standard of living than those of their highland countrymen, caused the polarization of the Sinhalese into two politically and culturally distinct groups.

During the almost 300 years of domination by the Portuguese and the Dutch, little in Sri Lanka changed. Both colonizers had followed a policy of minimal interference with indigenous social and cultural institutions. The British, on the other hand, executed a different strategy.

¹³Jae Kyung Lee, "Dependency, the State, and Development in Asia" (Ph.D. diss., University of Michigan, 1987), 135.

¹⁴Ross and Savada, 20.

¹⁵ibid. 21.

Modernization and reform were central to the vision of the British. Many British institutions have survived to date and have a direct and lasting influence on cultural and political events.

In 1795, the Kandyans signed a treaty with the British to help them expel the Dutch from Sri Lanka. From 1798 to 1802 the British ruled by a system of "dual control," with the governor responsible for governing and the East India Company concerned with commercial matters. It was during British rule that a labor shortage necessitated the recruitment of South Indian Tamils to work on tea plantations. Tea was harvested all year and therefore required a permanent labor force. Large numbers of Indian Tamil immigrants settled on these tea estates, creating a culturally distinct underclass population. "The importation, en masse, of a large number of individuals historically associated with pre-colonial invasions was to cause trouble in the long term, but in the shorter term it proved the perfect solution to the need for estate labor."¹⁶

By the beginning of World War I, a nationalist movement emerged as a result of the incorporation of the Allies' wartime propaganda. Principles such as freedom and self-determination, which were advocated by the Allies, motivated

¹⁶Robert Allen Denemark, State Strength in the Periphery of the Capitalist World-System: A Focused Comparative Critical Case Study Analysis, (Minnesota:University of Minnesota, 1987), 276.

the masses to cooperate and work towards these ideals. The nationalist movement in India served as a model for Sri Lankan nationalists, and in 1919 Sinhalese and Tamil political organizations united to create the Ceylon National Congress.

The British response to nationalist demands was the creation of a new constitution in 1920 which was amended in 1924. This response was inadequate because it provided only token representation. A new constitution was created in 1931 to accommodate innovative proposals for constitutional reform. With the Donoghmore Constitution, the British began to prepare Sri Lanka for independence.

Sri Lanka continued to press for reform through World War II until the Ceylon Independence Act of 1947 was passed. When the new constitution took effect on February 4, 1948, Sri Lanka became independent.

Post-independence Politics

Post-independence politics in Sri Lanka has generally followed a democratic tradition. The country has maintained a multi-party electoral system. The two major parties, the United National Party (UNP) and the Sri Lanka Freedom Party (SLFP), have alternated rule.¹⁷

The UNP held power from 1947 to 1956 and the SLFP from 1956 to 1965 (except for a five month interlude in 1960 when

¹⁷United States Department of State, 3.

the UNP regained power). The UNP resumed power in 1965 and ruled until 1970 when it was again defeated by the SLFP. The SLFP completed its tenure in 1977 and the UNP has maintained power ever since. The six changes in power were all peaceful and constitutional.

Interestingly, after each election, the party in power was defeated and another assumed the leadership of the country. As an explanation of this phenomenon, the Department of Defense makes the following observation;

The Donoghmore Constitution [an attempt at reform by the British in 1931] ushered in a period of experimentation in participatory democracy but contemporary political scientists have criticized it for not having provided an atmosphere conducive to the growth of a healthy party system...Instead, a number of splinter political groups evolved around influential personalities who usually followed a vision too limited or an agenda too communally partisan to have an impact on national politics.¹⁸

The UNP party platform includes a commitment to democratic socialism, international neutrality, the encouragement of Sinhalese culture, an emphasis on the private sector and encouragement of foreign investment. The platform of the SLFP is similar to that of the UNP, with two major differences. SLFP economic policy is strongly socialist, as opposed to the market-oriented economic policy of the UNP. Secondly, the SLFP introduced a strong element of Sinhala consciousness into the political process. These

¹⁸Ross and Savada, 37.

differences, and the frequent changes of the party in power, make long-term planning difficult. Whatever strategy is pursued by government has to be short-term in nature or the opposition will surely reverse the policy when it comes in to power. This lack of continuity is one explanation for slow economic growth in Sri Lanka.

Civil Crisis

The post-independence era sees Sri Lanka struggling to find a suitable form of representative government which allows all facets of society to express their political and economic aspirations and which nurtures an environment where conflicts can be resolved peacefully, within the realm of government.

Since independence, the Tamil minority has been in a precarious position, vulnerable to the ethnocentric actions of the Sinhalese majority. The SLFP has typically incorporated elements of Sinhalese nationalism into its agenda. S.W.R.D. Bandaranaike began this trend in 1956 when he declared Sinhala the country's official language. Other apparently discriminatory acts followed. The Tamils' response eventually became radical and violent.

By the mid 1970s, Tamil leaders called for a separate Tamil state in the northern and eastern provinces of Sri Lanka. The Tamil United Liberation Front (TULF) agitated for this "Tamil Eelam" through the political process, however the Liberation Tigers of Tamil Eelam (LTTE) sought

an independent state by force. The worst violence in the country's history erupted in 1983. Killings of both Sinhalese and Tamils were rampant. Terrorist incidents occurred in the cities and attempts to suppress Tamil militant groups were equally bloody. Tamil areas were besieged. Thousands were left homeless and a large number fled to South India.¹⁹

The Sri Lankan government had accused India of supporting Tamil militant groups but by 1987, when the situation became uncontrollable, President Jayawardene signed an agreement with Indian Prime Minister, Indira Ghandi, to have India help Sri Lanka solve the problem. It seemed that progress would be made when the Sri Lankan government made concessions to Tamil demands. Power was given to the provinces, the north and east provinces were consolidated and the Tamil language was given official status. The insurgent groups had agreed to surrender their weapons to the Indian Peace Keeping Force (IPKF). Within weeks, however, fighting resumed.

The IPKF found itself engaged in a bloody police action against the LTTE. Fighting between the two continued for two years, until President Premadasa ordered the Indians to leave in 1989.²⁰

¹⁹U.S. Department of State, 3.

²⁰Robert C. Oberst, "A War Without Winners in Sri Lanka," Current History (March 1992): 129.

To further complicate matters, an insurgency movement was growing in the southern provinces. The Maoist Janatha Vimukthi Peramuna (JVP) resurfaced to protest the presence of the IPKF. Their tactics included intimidating supporters of the Sri Lankan-Indian accord and assassinating public officials. The government ended the JVP insurrection in 1989, but not without resorting to extreme actions. Frustrated by the failure of constitutional methods, security forces used death squads, torture and terror against JVP sympathizers.²¹

The communal crisis has had a serious impact on the economic performance of the country. Fighting disrupted economic activity in the north and east. JVP terror campaigns and strikes brought the rest of the island to a standstill for brief periods. Much of the national budget was used on military expenditures and terrorism decreased both tourism and foreign investment.²² The conflict precluded any efforts at development. Robert C. Oberst, in his article appropriately titled, "A War Without Winners in Sri Lanka," writes, "The future of Sri Lanka depends on the ability of the government and the Liberation Tigers to end the slaughter of the country's citizens through reconciliation and compromise. Thus far, they have been

²¹ibid, 128.

²²U.S. Department of State, 5.

dismal failures."²³

The Economy

The Colonial Period

The economic structure of Sri Lanka during the colonial period was largely based upon the export sector. Initially the cinnamon trade, and later, coffee, tea, rubber and coconut transformed the traditional agricultural sector from subsistence to plantation agriculture. This sector catered solely to the export market and was heavily dependent on foreign entrepreneurship, foreign capital, and immigrant labor. As a result, the plantation sector grew independently of the traditional domestic economy. Both the export sector and the domestic economy were dependent on imports from abroad for requirements such as food, manufactured goods, raw materials and capital goods.²⁴ In fact, at independence, 34 percent of its Gross National Income was derived from exports and 34 percent was spent on imports.²⁵

Lee (1987) notes, "A striking feature of the colonial economy was the virtual absence of an independent industrial sector apart from certain industrial activities, which

²³Oberst, 128.

²⁴Lee, 136.

²⁵H.M. Gunasekera, "Foreign Trade of Sri Lanka," in K.M. deSilva ed., Sri Lanka: A Survey (Hamburg:Institute of Asian Affairs, 1977) 172-91.

revolved around the export trade."²⁶ Import-substituting industries established when trade patterns were disrupted during WW II were abandoned at the end of the War and left no significant impact on the structure of the economy.

Post-independence

Sri Lanka reached independence with a strong economy. Its success was based on the thriving plantation sector which had been busy meeting the Allies' wartime demands. Also, high trade volume with their former colonizers gave the Sri Lankan government an excess of British Sterling which allowed them to import necessary consumer and investment goods. Yet the SLFP spent excessively on social welfare projects and by 1977, although gains were made in the areas of healthcare and education, growth was stagnant and unemployment rising. When the UNP came to power this same year reforms were instituted to try to regain some of the country's economic strength. Price and foreign exchange controls were abolished, along with subsidies. The private sector was revitalized and foreign investment was sought out. Under this regime, international trade soared. While in 1970, exports were 25.5% of Gross Domestic Product, in 1975 exports were 27.5% of GDP and by 1980, 32.2%.²⁷ The

²⁶Lee, 137.

²⁷Baban Hasnat, Patterns of Trade and Payment: South and Southeast Asian Countries, 1970-1985, (Knoxville: University of Tennessee, 1989), 25.

results of these policy changes were good. From 1978-1988 Sri Lanka's annual growth rate was over 5%.²⁸

The economic performance of the country since 1988 has not been as impressive. It has been characterized by slow growth, poor BOP position, low foreign exchange reserves and high debt service, budget deficit and inflation. For example, the annual growth rate was 4.3% in 1986, 1.5% in 1987, and 2.7% in 1988.²⁹ These are typical of recent performance. The poor balance of payments position is evidenced by the negative trade balances of \$731 million in 1986, \$658 million in 1987, and \$766 in 1988.³⁰ Sri Lanka's external debt was in excess of \$5 billion (5.06) in 1988 and the debt service was \$551 million.³¹ Furthermore, government expenditures in 1988 were \$2.7 billion while revenue was only \$1.5 billion, thus resulting in a \$1.2 billion budget deficit.³² The inflation rate was as high as 14% in 1988.³³

For reasons explained earlier in the paper, pursuing an export promotion strategy to alleviate these symptoms is

²⁸U.S. Department of State, 5.

²⁹ibid, 1.

³⁰ibid, 5.

³¹ibid.

³²ibid.

³³ibid, 1.

wise.³⁴

The government of Sri Lanka has designated expansion of the export sector as a priority area of economic activity. The Export Development Board (EDB) was organized to provide a series of incentives, assistance schemes and facilities operated through state organizations, banks and other institutions. In an official declaration in the Preamble of a guide for Sri Lankan exporters, the following statement is made:

Promotion and development of exports has been accepted by the Government of Sri Lanka as a lead project in view of the persistent adverse balance of payments situation experienced by the country. The Government has therefore decided on a package of incentives which will make the export sector the most attractive sector in Sri Lanka for investors in export oriented ventures.³⁵

To explain the policy choice, William Ryrie had this to say:

The change in attitude has been compelled also partly by the harsh realities of the 1980s. With the world in recession in the early years of the decade, capital inflows falling away and for many countries inflation and the burden of debt service mounting, governments have had to cut back their own spending and curtail their borrowing. This has compelled them to look to the private sector for investments which in the past would have been public.³⁶

He conjectures that Third World leaders may admit, "The new capitalism is not ideological; it is compelled by

³⁴see chapter 1, section 2.

³⁵Sri Lanka Export Development Board, Incentives for the Sri Lankan Exporter (Colombo, Sri Lankan Export Development Board, 1991), preamble.

³⁶William Ryrie, "Socialism, Capitalism and Development: The new look of the Third World," Management Accounting 67, no. 2 (February 1989): 33.

circumstances, i.e. the retarded development of the state system."³⁷

The economic growth rate of independent Sri Lanka has been slow. The economic performance of the country has been poor compared to some of its more prosperous Asian neighbors. Nevertheless there is hope. Export expansion activities may very well provide the solution for the structural imbalances in the economy which caused the growth rate of the country to slow and the development progress to lag.

³⁷ibid.

CHAPTER 5

THE ORNAMENTAL PLANT AND FLOWER INDUSTRY IN THE CENTRAL PROVINCE OF SRI LANKA

Introduction

In recent times, Sri Lanka has recognized the need to diversify its agricultural production, to increase incomes in the agricultural sector and to increase revenue from agricultural exports. The production of ornamental flowers and plants is now being looked at as a desirable effort for these diversification programs.

The discussion in this chapter will include the natural, financial and human elements involved in the industry beginning with a description of the physical environment of the Central Province. The study will also describe the firms/enterprises involved in the industry. It will identify the major services and inputs used, distinguishing those inputs provided locally from those that are imported. It will also estimate the investment requirements, costs of production, handling and packaging, marketing, production levels and revenues. Furthermore, it will look at the demographics of the labor force and corresponding income levels. Secondary impacts and distribution of benefits will then be addressed.

Gathering information and presenting it so that many people can participate in providing information, defining assumptions on which it is based and evaluating how accurate it is cannot be overemphasized. It is hoped that after reviewing the results of this deliberation, a determination of the responsibilities of participants, be they growers, private sector firms, or government agencies, will follow and lead to an optimal balance of objectives.

Overview of Sri Lankan Floriculture

It is estimated that the flora of Sri Lanka consist of almost 2000 species and varieties of flowering plants, which belong to 200 families and 1300 genera. For the purpose of this study, floricultural crops are divided into potted plants, cut flowers (without roots), rooted cuttings (with roots but no container other than a polyurethane bag), and cut leaves (no stem or roots).

Sri Lanka's Agro-Climatic Diversity

Sri Lanka's agro-climatic diversity may well be its edge against international competition. There are four distinct agro-climate zones which are demarcated by altitude and amount of rainfall. Significant variation in altitude and two monsoon seasons result in a variety of climates in which to grow assorted ornamental crops. The very wet, wet and semi-wet zones are the most appropriate areas for the development of floriculture in Sri Lanka, with varietal

specialization within these zones according to their requirements of temperature, relative humidity and intensity of rainfall.

Description of the Enterprises Involved in Ornamental Production in the Central Province

Management of Enterprise

The majority of the enterprises included in the survey were owner-operated (88.5%) (see table 1).

Table 1.--Management of Enterprise

Type	Number	Percent
Owner-operated	23	88.5
Hired manager	3	11.5
Other	0	0.0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Size of Enterprise

Most of the establishments are relatively small, utilizing little land. The mean is less than 1/2 acre while 85.2% used 2 acres or less for the nursery. There are few industrial-sized producers in the Central Province. This is illustrated in table 2.

Acreage, the amount of land utilized for the production of ornamentals, is not necessarily correlated to level of production or even revenue. An analysis of the data proved that the correlation between amount of land and level of

production is not statistically significant. Nor is the correlation between amount of land and revenue significant when standardizing for amount of land.

Table 2.--Size of Enterprise

Amount of Land	<u>N</u> =26	Percent
1/2 acre or less	13	50.00
1/2 - 2 acres	9	34.62
over 2 acres	4	15.38

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Diversity of Enterprise

The majority (88.5%) of the enterprises are also involved in other commercial ventures such as selling spices and fruit from the property (see table 3).

Table 3.--Diversity of Enterprise

Other products sold	<u>N</u>	Percent
Spices	20	76.9
Fruit	15	57.7
Animals	0	0.0
Crafts	1	3.8
Tea	3	11.5
Other	0	0.0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Location of Enterprise

The breakdown of firms by district is contained in table 4.

Table 4.--Firms By District

District	<u>N</u> =26	Percent Market Share (Central Province)
Nuwara Eliya	5	19.2
Kandy	19	73.1
Matale	2	7.7

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992

A significant number of growers (42.3%) were not located on a main road (see table 5). This has a great deal of influence on their sales volume. Table 5 illustrates that while 42.3% of the ornamental growers surveyed were not on a main road, they earned less than 6% of the total revenue in the Central Province. A remote location also creates problems with transportation of inputs and products to market.

Table 5.--Location of Enterprise

	<u>N</u> =26	Percent of Central Province Growers	Mean Revenue (rupees)	Percent of Total Revenue
Off road	11	42.3	\$677,000	5.9
Main road	15	57.7	\$10,770,000	94.1

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Level of Production

This study does not include any growers who had less than 1500 plants on the premises at the time of the interview. Of those that met this minimum, the mean number of ornamentals on the property was 100,000 (see table 6).

Table 6.--Level of Production

# of Flowers	<u>N</u> =26	Percent
1,500-26,000	20	76.9
26,001-50,500	2	7.7
50,501-75,000	1	3.8
75,001-99,500	0	0.0
99,501-124,000	1	3.8
124,001-148,500	0	0.0
148,501-173,000	0	0.0
173,001-197,500	0	0.0
197,501-222,000	2	7.7

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Investment Requirements

Itemization of Inputs and Respective Costs

Table 7.--Mean Investment Costs

Description	Mean Cost*
Structures	143,770**
Propagative Materials	74,510
Equipment and Tools	9,930
<u>Well and Pump</u>	<u>3,850</u>

*cost in rupees (5% Trim)

**Correlation analysis indicates diseconomy of scale with regard to structures. As acreage increases, investment in structures increase.

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Analysis of Inputs

Structures:

Structures include screen houses, greenhouses, tool sheds, employee housing, storage facilities, water pipes and irrigation equipment, for example.

Few growers had tool sheds, storage facilities or employee housing (7.7%). Many (31.0%) had to invest in water pipes and irrigation equipment, which are costly. The materials used are locally manufactured.

Depending on the type of plant or flower grown, the cost of shade structures could constitute a significant percentage of the investment costs (see table 8). For example, Anthurium, which needs to be grown in shade and whose quality cannot be

ensured if grown under a tree, requires the use of a shade structure. Many of the small-scale farmers built their structures themselves with whatever material was most economical.

Table 8.--Investment in Structures

\$ (in Rupees)	N=18	Percent	% of Total Investment
1-50,000	11	61.1	61.7
50,001-100,000	3	11.7	64.4
100,001-150,000	2	11.1	72.8
150,001-175,000	0	0.0	0.0
175,001-200,000	0	0.0	0.0
200,001-250,000	0	0.0	0.0
250,001-300,000	0	0.0	0.0
300,000 & up	2	11.1	64.3

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Propagative Materials:

The investment in propagative materials varies a great deal from enterprise to enterprise (see table 9). Many (23.1%) of the smaller growers started growing ornamentals as a hobby. They may have purchased a few mother plants for propagation and produced a significant number from them. When they retired or realized that they could earn money from this hobby, they changed these hobbies into businesses. If a grower intended to begin a business venture at the outset, or if the business has a high sales volume, then the investment in propagative materials was quite high.

Table 9.--Investment in Propagative Materials

\$ (in Rupees)	<u>N</u> =20	Percent	% Total Investment
1-50,000	18	90.0	31.0
50,001-75,000	0	0.0	0.0
75,001-100,000	0	0.0	0.0
100,001-150,000	0	0.0	0.0
150,001-175,000	0	0.0	0.0
175,001-200,000	0	0.0	0.0
200,000 & up	2	10.0	28.6

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Because of intense competition new varieties of mother material are always being sought. This, and the demand for quality mother plants, requires that much of the material is imported. Those who almost exclusively sell to the local market are less concerned with these factors and utilize indigenous mother material.

Equipment and Tools:

Relatively little is invested in equipment and tools (see table 10). Sprayers, garden hoses, spades, rakes and the like are not a significant percentage of the total investment cost. These items are available locally.

Table 10.--Investment in Equipment and Tools

\$ (in Rupees)	N=26	Percent	% Total Investment
1-3,000	24	92.3	1.2
3,001-6,000	0	0.0	0.0
6,001-9,000	0	0.0	0.0
9,001-12,000	0	0.0	0.0
12,001-15,000	0	0.0	0.0
15,000 & up	2	7.7	7.3

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Well and Pump:

The investment cost of a well and pump depends on whether the grower has access to municipal water or has irrigation equipment to tap water from a natural source on the premises. Some built wells themselves with stones and other inexpensive materials, others made a larger investment using more expensive materials and hired labor. The figures for the cost of well and pump are detailed in table 11. These goods are also locally available.

Table 11.--Investment in Well and Pump

\$ (in Rupees)	N=14	Percent	% Total Investment
1-1,000	0	0.00	0.0
1,001-2,000	0	0.00	0.0
2,001-3,000	4	28.57	1.5
3,001-4,000	6	42.86	2.6
4,001-5,000	4	28.57	6.2
5,001-6,000	0	0.00	0.0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Production Costs

Itemization of Inputs and Respective Costs

Table 12.--Mean Production Costs*

Advertising	22.72
Water Supply	1,870.45
Pots and Containers	8,116.95
Soil and Additives	8,218.90
Chemicals	13,431.68
<u>Labor</u>	<u>38,553.41</u>

*cost in rupees (5% Trim)

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

The two most expensive production costs include labor, because this is a labor intensive industry, and chemicals, because they are imported (see table 12).

Analysis of Inputs

Advertising:

Advertising is the smallest expenditure because 76.9% of the growers choose not to advertise (see table 13). They say demand exceeds supply as it is and they feel that production must be on a larger scale to warrant such an expenditure. Many do not even have signs stating that they are in business. They believe that word of mouth is the best form of advertising.

Table 13.--Advertising Costs

\$ (in Rupees)	<u>N</u> =6	Percent	% Total Production Cost
1-10	4	66.7	0.00014
11-20	0	0.0	0.0
21-30	0	0.0	0.0
31-40	0	0.0	0.0
41-50	2	33.3	0.000046

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Water Supply:

The cost of water can also be costly, especially if the grower does not have a well or irrigation facilities (see table 14). For municipal water, there is a monthly fee whereas for a well with a pump, an electricity bill must be paid. For those with irrigation equipment, there is usually a gravity feed from a

nearby water source and therefore there is no cost involved.

Table 14.--Water Cost

\$ (in Rupees)	<u>N</u> =17	Percent	% Total Production Cost
1-500	13	76.4	5.3
501-1,000	1	5.9	4.0
1,001-1,500	1	5.9	4.8
1,501-2,000	0	0.0	0.0
2,001-2,500	0	0.0	0.0
2,501-3,000	0	0.0	0.0
3,001-3,500	0	0.0	0.0
3,5001 & up	2	11.8	3.0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Pots and Containers:

For those enterprises which sell potted plants, the cost of pots and containers can be high (see table 15). The clay pots are locally procured, while the polyurethane used to protect the roots when a pot is not used is imported and fairly expensive.

Table 15.--Cost of Pots and Containers

\$ (in Rupees)	<u>N</u> =8	Percent	% Total Production Cost
1-2,000	4	50.0	21.0
2,001-4,000	1	12.5	16.0
4,001-6,000	1	12.5	19.0
6,001-8,000	0	0.0	0.0
8,001-10,000	0	0.0	0.0
10,001-12,000	0	0.0	0.0
12,001 & up	2	25.0	6.2

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Soil and Additives:

These production costs include, for example, sand, coir dust, cow dung, bricks, charcoal, and soil. The cost of soil and additives, generally, is minor (see table 16). Many have these items at their disposal for little or no cost. In those instances where soil quality is poor, it must be purchased.

Table 16.--Cost of Soil and Additives

	<u>N</u> =11	Percent	% Total Production Cost
1-2,000	5	45.5	21.0
2,001-4,000	3	27.3	16.0
4,001-6,000	1	9.0	19.0
6,001-8,000	0	0.0	0.0
8,001-10,000	0	0.0	0.0
10,001-12,000	0	0.0	0.0
12,001-14,000	0	0.0	0.0
14,000 & up	2	18.2	8.2

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Chemicals:

Chemicals consist of chemical fertilizers, insecticides, and fungicides. Although these goods are packaged locally, the bulk of the ingredients are imported and therefore they are expensive (see table 17). These chemicals are necessary in order to protect the plants and flowers from pests and disease. Surprisingly, some growers who sell to the local market do not use chemicals at all (19.23%). Others, who choose not to spend money on these chemicals employ other methods of prevention (ie. using tobacco as a pesticide).

Table 17.--Cost of Chemicals

	<u>N</u> =21	Percent	% Total Production Cost
1-5,000	17	81.0	52.6
5,001-10,000	2	9.5	40.0
10,001-15,000	0	0.0	0.0
15,001-20,000	0	0.0	0.0
20,001-25,000	0	0.0	0.0
25,000 & up	2	9.5	23.4

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Labor Cost:

Because the ornamental industry is labor intensive, the expenditure on labor in the Central Province is very high (see table 18). This however, is not representative of the industry

due to high use of unpaid family labor. Generally, wage levels are on par with other agricultural laborers.

Table 18.--Labor Cost

	<u>N=26</u>	Percent	% Total Production Cost
0-2,000	8	30.7	0.0
2,001-4,000	0	0.0	0.0
4,001-6,000	10	38.5	24.0
6,001-8,000	6	23.1	25.4
8,001 & up	2	7.7	59.2

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Revenues

Revenue is heavily dependent on the market channel of the product (see tables 19, 20 & 21). Those who sell to the export market generate higher revenues than those who sell to local companies (nurseries), individual traders, retail shops (florists), or final consumers. Cut leaves exports generate 600% more revenue than the local market (see table 21). Cut flowers exports generate 1,464% more revenue than the local market (see table 20). Potted plants are not exported (see table 19).

Market and Market Channels

The local market commands a large percentage of potted plants sold (79.9%), while the remainder (20.1%) goes to

local companies (see table 19). The export market "consumes" the majority of cut flowers (99%) (see table 20). Less than one percent Central Province cut flowers are sold to final consumers and local companies combined. Similarly, the majority of cut leaves are exported (85.7%), while significantly smaller percentages are sold to final consumers (11.4%) and local companies (2.9%) (see table 21).

Potted Plants

There is virtually no export market for potted plants because the freight cost is too high. The market channel for potted plants consists of sales to final consumers or to local companies (see figure 4). Since these are generally not high volume sales, the revenue generated by this product is low. As Sri Lanka's middle class expands, though, more disposable income will enable consumers to purchase potted plants. At this time, the domestic market is sufficient to allow growers to earn lucrative profits.

Table 19.--Potted Plants Revenue by Market Channel (N=8)

	Export	Local Company	Final Consumer
1-50,000	0	7	0
50,001-100,000	0	1	0
100,001-150,000	0	0	2
150,001-200,000	0	0	5
200,001-250,000	0	0	1

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Cut Flowers

Because of extremely costly greenhouse expenses, overseas nurseries (mainly European) import large quantities of cut flowers from Sri Lanka. This accounts for the towering revenues, compared to other ornamental products. Cut flowers are also sold locally, but again, not to the same extent (see table 20).

Table 20.--Cut Flowers Revenue by Market Channel (N=26)

	Export	Local Company	Final Consumer
0-100,000	23	24	24
100,001-200,000	1	0	2
200,001-300,000	0	0	0
300,001-400,000	0	0	0
400,001-500,000	0	0	0
500,001 & up	2	2	0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Cut Leaves

Cut leaves are exported, sold to local companies and final consumers (see figure 6). They are used as "fillers" in floral arrangements such as gypsophila (Baby's Breath) in wedding bouquets. Few firms in the Central Province sell cut leaves.

Table 21.-- Cut Leaves Revenue by Market Channel

	Export (N=5)	Local Company (N=15)	Final Consumer (N=15)
1-100,000	0	15	15
100,001-200,000	1	0	0
200,001-300,000	0	0	0
300,001-400,000	0	0	0
400,001-500,000	0	0	0
500,001-600,000	0	0	0
600,001-700,000	0	0	0
700,001-800,000	3	0	0
800,001 & up	1	0	0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Rooted Cuttings and Other

Rooted cuttings and the "other" categories are omitted from this analysis due to the fact that there were too few cases for a meaningful analysis.

Employment

Demographics of Labor Force

The enterprises in the Central Province are generally small, and as it was stated earlier, predominantly family-run. These businesses have few employees, if any, outside of the family (see table #22). Those that have hired employees generally employed women between the age of 18 and 45 (see table 23). On occasion, there were cases where school-aged

boys were hired a few hours a week for manual labor, but the majority of the labor force in this region are women (see table 24 & figure 7). Many of these women were in management positions, responsible for the daily activities involved in operating the business (see table #4).

Table 22.--Hired Workforce

	Men	Women
1-5	18	16
6-10	0	2
11-20	0	0
21-30	0	0
31-40	0	0
41-50	0	0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Table 23.--Age of Workforce

Men			
	Number	% Males	% Total Workforce
Under 18	22	41.5	12.9
18-45	27	51.0	15.8
Over 45	4	7.5	2.3
Women			
	Number	% Females	% Total Workforce
Under 18	3	2.5	1.8
18-45	115	97.5	67.2
Over 45	0	0.0	0.0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Table 24.--Workforce Demographics

Women				
	Unskilled	Skilled	Managerial	Prof.
0-5	26	22	24	26
6-10	0	2	1	0
11-20	0	0	1	0
21-30	0	1	0	0
31-40	0	1	0	0
Men				
	Unskilled	Skilled	Managerial	Prof.
0-5	24	24	26	26
6-10	1	2	0	0
11-20	1	0	0	0

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Although there is a need for unskilled labor, the major labor requirement is for skilled workers who can graft and determine fertilization requirements, etc.. (In table 24., the managerial category includes skilled laborers who also manage the business.)

Since the Central Province industry is primarily geared towards local market sales, there are no employees involved exclusively in handling and packaging. The goods are not transported to market, but rather the local consumer will buy the product and take it away himself.

Training Requirements

It is obvious from the workforce demographics graph (figure 8.) that it is not essential to have formal horticultural training to be successful in this industry, as can be seen by the small percentage of persons having university-level training in this discipline. Many, though, have taken three month courses in the Botanical Gardens, or have some professional affiliation with the Department of Agriculture. After designing the survey, it became evident that university-level training is not a good indicator of how much someone knows about ornamentals.

Income Generated

Salary levels are low and are generally different for men and women (see table 25). The rationalization is that men do most of the heavy and cumbersome work.

Table 25.--Mean Wages

Level	Rs. per Day
Professional	80*
Managerial	166
Skilled	104
<u>Unskilled</u>	<u>85</u>

*distorted value due to small number of cases

Source: Ornamental Plant and Flower Survey. Sri Lanka, 1992.

Feedback From Respondents

Over half (53.8%) of the respondents said that land was a problem. Many felt that government ownership of land leads to insecurities about the future because the government could reclaim their property at any time. Others felt that small holdings prevented them from operating the business at the desired level. Land is difficult to obtain even if one has enough money to purchase it. When they are able to purchase land, the plot is not necessarily adjacent to their existing plot.

Weather, pests, or disease was a problem for 57.7% of the growers. They had problems with insects eating the leaves of plants but most believe the problem is manageable with the use of chemicals. Drought was also mentioned as a problem.

Slightly less than half (42.3%) cited water supply as a problem. Municipal water is very expensive. It is difficult to get water during a drought; well water is low and municipal water is rationed. Droughts devastate those who depend on irrigated water from a natural water source.

The supply of water is inconsistent. Some nurseries get well water or water from pipes that run from a natural source which is piped down to them. Others use municipal water and still others that are outside the municipality obtain their supply of water from the Sri Lanka Water Board. The municipal water source is the most reliable.

Nearly two-thirds (61.5%) of the respondents said that

operating capital was a problem. They cited the need for more money to expand their businesses. Loans are difficult to obtain. One needs two guarantors (cosigners) who pay taxes and make above a certain salary level. In addition, the applicant must have had a bank account for at least two years.

Almost one-fifth of the respondents (19.2%) said that the location of their business was a problem. The transportation of inputs or of goods to market is difficult and the location is inaccessible to potential customers. Conversely, transportation itself was cited as a problem (23.1%). It is expensive to hire vehicles to transport goods to market. Because the land is in an inaccessible location, transportation is difficult.

Many growers want to export but do not know how. The accessibility of the export market is a problem for 23.1% of them. Advertising is another area where many of the growers know very little. Eleven and one-half percent said that access to information on horticultural practices was a problem. Either they do not know where to get information or they would like information about growing specific varieties or on specific cultural practices. Lack of knowledge about proper packaging techniques was a problem for 15.4% of the growers surveyed.

Another 23.1% of the respondents said that availability of supplies is a problem. For example, quality insecticide is not available on the local market.

The civil unrest in Sri Lanka has naturally disrupted economic activity in the country. This turmoil created a problem for 15.4% of the respondents. The JVP stole plants, harassed owners, scared employees away and hindered the normal operation of the business. Some also mentioned incidences when the police were involved in the theft of plants and flowers.

Most of the growers get their information about horticultural practices from either the DOA or the Botanical Gardens. When asked who can help and how, the respondents almost invariably cited the government first. Many want government supports like subsidies or price supports. They feel that government should regulate the industry in order to stabilize it, provide a market for goods, import new varieties for low prices. The majority of respondents are not market-economy minded.

Export Oriented Industry

Although this is essentially a study of the ornamental industry in the Central Province, it is impossible to conclude this study without a discussion of exporters and the export industry. The most feasible means of achieving the economic objectives is to increase exports (because the local market is finite), and therefore increasing production which will subsequently increase revenues, income, employment and foreign exchange earnings to improve the balance of trade (payments).

Which products are suitable to produce for export is determined by climatic conditions, availability and cost of air and sea freight, production cost levels, and the demand situation in the target markets. It is essential to choose products in which the exporting country has an advantage over other supplier countries.

The Netherlands is one of the most important markets for ornamental plants and decorative cut foliage. It imports from a large number of countries all over the world.

Developing countries command a significant market share of foreign imports. This can be attributed to low wage levels and good climatic conditions for the cultivation of mother material, through which they are in a position to offer very competitive prices.

Sri Lankan exporters should consider exporters from other developing countries their main competitors, as they are able to supply species similar to the assortment Sri Lanka can offer.

CHAPTER 6

CONCLUSION

According to the Horticultural Assessment prepared by DARP in March 1992, horticulture appears to offer the most promise for expansion of the agricultural sector in Sri Lanka. As the ornamental industry was not included in the study, this analysis provided information about how the industry in the Central Province is contributing to Sri Lanka's development goals.

The ornamental plant and flower industry in the Central Province is relatively small scale and fairly new. This is a 100% sample with the sample size of the study (n) equal to 26. Considering the small number of firms involved in ornamental production in the Central Province and their recent origin, the figures indicate that the growth potential of the industry is great.

There are three large nurseries in this region, but they belong to companies based in Colombo. The figures for these operations are included here, disaggregating other nurseries owned and operated by the parent company. The other 23 are small-scale operations.

The enterprises are overwhelmingly owner-operated, utilizing little land and selling other goods from the same

property.

The growers in the Central Province primarily sell to the local market or are outgrowers for larger companies who need to supplement their own stock. The larger nurseries sell directly to the export market. The market channel of the produce determines production and revenue levels; exporters produce higher volumes and thus, earn more.

Potted plants, cut flowers and cut leaves command the largest share of the ornamental market. Rooted cuttings, seeds and tissue culture materials are also sold but there are few companies engaged in this type of trade. It is a labor intensive industry but because of low wage levels, labor costs are small. In addition, the small-scale grower is able to keep labor costs down by utilizing unpaid family labor. Investment and production costs are minimized because they are not required to produce export-quality products. (For example, instead of using a shade structure, Anthurium can be grown under a shade tree.) The larger enterprises which must ensure high quality standards, have high investment costs in structures, propagative materials, and equipment and tools. Production costs are also high due to the fact that many of the inputs must be imported.

The ornamental industry commands a high market value but costs are high and the margins are slim. Yet owner-operated businesses generally command a decent living and can support themselves with this enterprise. If the business is a second source of income, it is usually run by the woman of the house

who is fulfilling her domestic responsibilities at the same time. Exporters are able to obtain a good amount of foreign exchange earnings.

This segment has the potential to be quite profitable in that as Sri Lanka's per capita income rises, people will have more disposable income to spend on ornamental plants and flowers.

Ornamentals are in constant demand by hotels, florists and for such special occasions as weddings and religious and national festivals. Again, as the tourist industry expands, so too will the demand for these products. Moreover, the establishment of flower shops is relatively new and as this becomes more popular, demand will increase. The importance of the small-scale enterprises in the scope of economic development should not be overlooked. Low start-up costs enable the average person with basic knowledge of floriculture to become an entrepreneur. (Only 11% of the businesses in the Central Province ornamental industry have employees with formal horticultural training.) The Central Province is an important region in ornamental production. It encompasses two distinct agro-climatic zones, thus both temperate and tropical ornamentals can be grown here. For this reason it is a logical starting point for analysis.

It may have been misleading to have titled this document, "An Analysis of Export-led Development in Sri Lanka." In fact, the term "export-led development" itself may be outdated. Having elucidated the current definition of

development, this strategy is actually a method of achieving economic growth rather than development.

Nevertheless, this paper is an analysis of export-led development in Sri Lanka. The conclusion that can be reached from the information contained in the preceding chapters is that export-promotion is a prudent method of increasing growth rates. It has proven to be successful for other Asian economies which have increased their rates of growth significantly. Import-substitution policies have failed in Sri Lanka and the logical alternative is export promotion.

Sri Lanka has had moderate success with a market-oriented economy. Results are difficult to determine because national policy has been inconsistent. Once the commodity base is expanded, though, Sri Lanka will occupy a relatively strong position in the international economic order. Official promotion of the ornamental plant and flower industry and other industries in which Sri Lanka has a comparative advantage will ensure this.

The ornamental plant and flower industry has great potential for expansion. Sri Lanka is capable of increasing its market share of ornamental exports. With increased production levels, comes a rise in revenue, income and employment, not to mention the economic and social elevation of women in the country. This industry can contribute not only to growth in the economy, but also to the accomplishment of social objectives as well.

Recommendations

My recommendations and suggestions about how to support this industry are outlined below. There must necessarily be some flexibility and overlapping of responsibilities and resources between government, private industry and foreign assistance agencies.

A market analysis should be conducted for each product to ensure effective demand at remunerative prices. Only those varieties which offer good market potential with the least amount of competition from other countries should be produced. Examples include, Anthurium, Orchids, Dendrobium, Vanda, Cymbidium, and Arachnis.

The market channels for inputs should be analyzed and a plan to alleviate the high costs of imported inputs should be developed.

It is necessary for growers to secure supplies of fertilizer, pesticides, high yield seeds, and other planting materials at a reasonable price.

A system must be developed to bring new information or teach new skills. An extension program where the extension officer would serve as liaison between the small grower and larger growers or potential foreign investors would be appropriate.

Priority areas for investment must be selected by the government. They must organize growers and establish communication networks and business arrangements.

It would be useful to set up an Ornamental Research

Institute, similar to the Sugar Research Institute, where, specialists could devote their efforts exclusively to studying ornamental plants and flowers. Their findings should be presented to growers and the communication network should be maintained.

Capital must be made available to small growers in order for them to expand and operate under optimal conditions. Again, this could be facilitated through one of the many social development programs or one of the various loan schemes.

Small firms should form cooperatives to preclude abuses from larger growers. Prices would be more competitive, and exporters would have additional alternatives as well. One such example is Markfed. It buys food crops from small farmers. The same could be done for ornamental growers.

As it stands, larger growers buy small quantities from small-sized growers and include them in their sales to exporters. The larger growers benefit from having a diverse source of supply. Prices are kept low. Smaller-sized growers have no choice but to sell to the larger growers at whatever prices the sizable customer desires.

Finally, establishing a collecting center outside Colombo in the main floricultural production areas would alleviate the burden of transporting goods. A continuous supply of plants and flowers could be maintained through the year.

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